

**North Country Community Mental Health**

**FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

September 30, 2006

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                                  |  |                 |
|--|----------------------------------|--|-----------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                                  | Local Unit Name<br>North Country Community Mental Health | County<br>Emmet |
| Fiscal Year End<br>September 30, 2006  | Opinion Date<br>February 8, 2007 | Date Audit Report Submitted to State<br>March 14, 2007   |                 |

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |             |                              |
|--|-------------------------------------|--|-------------|------------------------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |             |                              |
| Financial Statements   | <input checked="" type="checkbox"/> |  |             |                              |
| The letter of Comments and Recommendations   | <input checked="" type="checkbox"/> |  |             |                              |
| Other (Describe)   | <input type="checkbox"/>            |  |             |                              |
| Certified Public Accountant (Firm Name)<br>Dennis, Gartland & Niergarth  |                                     | Telephone Number<br>231-946-1722           |             |                              |
| Street Address<br>415 Munson Avenue  |                                     | City<br>Traverse City                      | State<br>MI | Zip<br>49686                 |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>Robert C. Thompson         |             | License Number<br>1101011523 |

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## **North Country Community Mental Health**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2006**

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This report offers readers of North Country Community Mental Health's (the "Authority") financial statements a narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2006. This analysis is provided at the beginning of the audit to facilitate the reader's understanding of the Authority's financial condition. It should not be taken as a replacement for the audit detail, which consists of the financial statements and supplemental information that presents the Authority's revenues and expenditures by program for the Provider Fund, Affiliation Fund and various Internal Service Funds.

#### Using the Annual Report

This discussion and analysis is intended to serve as an introduction to the financial statements of North Country Community Mental Health. The Authority's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information.

#### Government-Wide Financial Statements

The government-wide financial statements provide readers with an overview of the Authority's finances. The Statement of Net Assets presents information on the Authority's total assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Authority is improving or declining. The Statement of Activities presents information on how the Authority's net assets changed during the fiscal year.

#### Fund Financial Statements

A Fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities. Fund financial statements present how services were financed in the short-term, and indicate what remains for future spending. Funds are divided into two categories: governmental and proprietary.

Governmental Fund financial statements focus on current inflows and outflows of financial resources, as well as balances of resources available at year-end for future use. The Governmental Fund financial statements for North Country Community Mental Health identify both the Provider Fund and Affiliation Fund activity and balances. The Governmental Funds Balance Sheet and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance contain reconciliations, to facilitate comparison between the governmental fund and governmental activities reported in the government-wide financial statements.

Proprietary Funds, which in the Authority's case include only Internal Service Funds, are used to account for the financing of services provided by other funds of the entity. The Authority has three Internal Service Funds: the Risk Management Fund; Employee Benefit Fund; and the Building Improvement Fund.

The Risk Management Fund is established to protect the Authority from the inevitable risk occurring in a capitated funding arrangement where demand for service might exceed prepaid revenue. Included in the fund are balances transferred from affiliates Ausable Valley Community Mental Health, Northeast Michigan Community Mental Health, and Northern Michigan Substance Abuse Services. The dollar amount of fund equity as of September 30, 2005 was \$2,804,223. During FY06, interest income was earned in the amount of \$101,428 and \$28,813 was abated back to the Department of Community Health. The dollar amount of fund equity as of September 30, 2006 is \$2,876,838.

The Employee Benefit Fund is used to secure funds necessary to meet future sick and vacation leave payout. The total current assets are \$557,544. The dollar amount of fund equity as of September 30, 2006 is \$0.

The Building Improvement Fund is used to account for the sale of rental services to the General Fund. The fund may be used for future building improvement. The total fund equity as of September 30, 2006 is \$671,697.

#### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### The Authority as a Whole

North Country Community Mental Health receives the majority of its funding (approximately 90.9%) from two contracts held with the Department of Community Health. The Medicaid Managed Specialty Supports and Services Contract provides funding for mental health and substance abuse services for the Medicaid population for a thirteen county region. The Managed Mental Health Supports and Services Contract provides funding for mental health services for the indigent population for a six county area. During the audit period, North Country Community Mental Health was in the first year of a two-year contracting period.

Fiscal year 2005-06 was the fourth year that North Country Community Mental Health operated as the lead agency in an Affiliation for Medicaid-funded services. North Country Community Mental Health entered into an agreement under the Intergovernmental Transfer of Functions and Responsibilities Act (P.A. 8, 1967) with Ausable Valley Community Mental Health and Northeast Michigan Community Mental Health in fiscal year 2002-03. Because it holds the contract with the Department of Community Health, North Country Community Mental Health receives all Medicaid revenue for the thirteen county region. Ausable Valley Community Mental Health, Northeast Michigan Community Mental Health, and Northern Michigan Substance Abuse Services hold contracts as service providers with North Country Community Mental Health. North Country Community Mental Health also provides services to its six county primary service area.

### Government-Wide Financial Analysis

The Authority's net assets were \$6,063,986 on September 30, 2006 and \$6,029,552 on September 30, 2005. Of this amount, the unrestricted portion was \$2,024,950 on September 30, 2006 and \$2,213,459 on September 30, 2005. Restricted net assets are to be used for a specific purpose and cannot be used to fund day-to-day operations.

|  | Governmental<br>Activities<br>2004-05 | Governmental<br>Activities<br>2005-06 |
|--|---------------------------------------|---------------------------------------|
| Current assets                           | \$ 9,161,424                          | \$10,328,656                          |
| Capital assets                           | <u>1,610,949</u>                      | <u>1,736,041</u>                      |
| Total Assets                             | <u>\$10,772,373</u>                   | <u>\$12,064,697</u>                   |
| Current liabilities                      | \$ 4,167,184                          | \$ 5,451,210                          |
| Non-current liabilities                  | <u>575,637</u>                        | <u>549,501</u>                        |
| Total Liabilities                        | <u>\$ 4,742,821</u>                   | <u>\$ 6,000,711</u>                   |
| Net assets                               |                                       |                                       |
| Invested in capital assets (net of debt) | 1,011,870                             | 1,162,199                             |
| Restricted for Risk Management           | 2,804,223                             | 2,876,837                             |
| Unrestricted                             | <u>2,213,459</u>                      | <u>2,024,950</u>                      |
| Total Net Assets                         | <u>\$ 6,029,552</u>                   | <u>\$ 6,063,986</u>                   |

The following table summarizes the change in net assets as of September 30, 2006. Comparison information is given for September 30, 2005.

|                                      | Governmental<br>Activities<br>2004-05 | Governmental<br>Activities<br>2005-06 |
|--------------------------------------|---------------------------------------|---------------------------------------|
| Total program revenues               | \$53,988,739                          | \$59,618,076                          |
| General purpose revenues             | <u>1,110,071</u>                      | <u>1,325,308</u>                      |
| Total revenue                        | <u>\$55,098,810</u>                   | <u>\$60,943,384</u>                   |
| Health and human service expenses    |                                       |                                       |
| Mental illness adult expenses        | \$ 7,997,887                          | \$ 8,357,077                          |
| Mental illness child expenses        | 1,807,536                             | 1,976,870                             |
| Developmental disability expenses    | 14,817,871                            | 16,157,401                            |
| Other program service expense        | 390,911                               | 288,333                               |
| Administration                       | 1,830,562                             | 2,159,623                             |
| Other expenses                       | 246,520                               | 232,773                               |
| Managed care                         |                                       |                                       |
| Ausable Valley CMH                   | 7,656,255                             | 8,416,597                             |
| Northeast Michigan CMH               | 15,214,894                            | 16,153,843                            |
| Northern MI Substance Abuse Services | 668,982                               | 724,173                               |
| Other contractual providers          | 1,300,535                             | 1,394,693                             |
| QAAP Assessment                      | 497,149                               | 3,213,315                             |
| Evidence Based Practice Grant        |                                       | 40,005                                |
| Managed care administration          | <u>1,777,274</u>                      | <u>1,794,247</u>                      |
| Total Expenses                       | <u>\$54,206,376</u>                   | <u>\$60,908,950</u>                   |
| Changes in net assets                | <u>\$ 892,434</u>                     | <u>\$ 34,434</u>                      |

## Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget two times to take into account changes in revenue and expenditures during the year. The total initial budget was \$28,901,780 for Provider operations and \$54,940,016 for Affiliation operations. The total final budget was \$30,344,758 for Provider operations and \$55,091,213 for the Affiliation operations.

The most significant revenue changes to the provider budget were changes in Medicaid funding and reimbursements. During FY06 the Affiliation increased Medicaid funding to the provider operations. This funding was earmarked primarily for expansion of services to children and employment alternatives for individuals with developmental disabilities. Also during FY06, North Country Community Mental Health received additional revenue for services provided to Adult Benefit and MI Child eligibles and billing injections. The initial budget included \$21,179,029 in Medicaid revenue and \$645,426 in reimbursement revenue. The final budget included \$21,904,332 in Medicaid revenue and \$748,177 in reimbursement revenue resulting in changes of \$725,303 and \$102,751 respectively. Another significant revenue change was the use of fund balance in the amount of \$555,940 to purchase vehicles and equipment.

Total expenditures for North Country Community Mental Health Provider Operations were \$997,781 less than budgeted. Staff turnover accounted for \$231,774 of the difference, reduced usage of state facilities, local inpatient, and residential facilities accounted for another \$360,077. The remaining difference was due to under expenditure of various operating line items.

North Country Community Mental Health Provider Operations under spent its Medicaid budget by \$515,520. Affiliates Ausable Valley Community Mental Health and Northeast Michigan Community Mental Health under spent their Medicaid budgets by \$142,831 and \$526,674 respectively. Northern Michigan Substance Abuse Services over spent its budget by \$36,106. The unspent funds were returned to the Affiliation. Medicaid dollars in the amount of \$1,163,096 was carried forward into FY07.

At the end of FY05, the Department of Community Health passed on a Quality Assurance Assessment Program tax (QAAP) to the Affiliation. The amount in FY05 was \$497,149. The amount in FY06 was \$3,213,315.

## Capital Asset and Debt Administration

As of September 30, 2006, the Authority had \$2,787,783 invested in capital assets, including land, buildings, equipment, furniture, and vehicles. The total accumulated depreciation on these assets is \$1,051,742. The total debt related to fixed assets was \$573,842. For comparison purposes, as of September 30, 2005, the Authority had \$2,678,416 invested in capital assets, including land, buildings, equipment, furniture, and vehicles. The total accumulated depreciation on these assets was \$1,067,467. The total debt related to fixed assets was \$599,079.

The most significant capital asset purchases during fiscal year 2005-06 were vehicles, computer upgrades, and renovation of a building purchased in FY05 that is now used to house the peer directed program in Cheboygan. Ten high-mileage vehicles were replaced. The Authority continued to update its information systems over the past year in order to increase its ability to manage and transmit information electronically.

### Looking Forward to FY07 and Beyond

The Authority's budget for FY07 will continue at FY06 levels due to modest increases in the Medicaid capitation rates and FY06 carry forward dollars. It is unknown what FY08 will hold as capitation rates will be rebased. It is also unknown if the Department of Community Health will reduce Formula Funding in FY07 and FY08.





Business and Financial Advisors  
*Our clients' success – our business*

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James G. Starnate, CPA  
Robert C. Thompson, CPA  
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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mental Health Board  
North Country Community Mental Health

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **North Country Community Mental Health** (the "Authority") as of and for the year ended September 30, 2006, which collectively comprise the Authority's financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of North Country Community Mental Health as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2007 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The management's discussion and analysis and budgetary comparison information on pages i - v and 26 - 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Dennis, Gartland & Niergarth*

February 8, 2007



Business and Financial Advisors  
*Our clients' success - our business*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Mental Health Board  
North Country Community Mental Health

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *North Country Community Mental Health*, (the "Authority"), as of and for the year ended September 30, 2006, which collectively comprise the Authority's financial statements and have issued our report thereon dated February 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mental Health Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth*

February 8, 2007  
Member of



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# North Country Community Mental Health

## STATEMENT OF NET ASSETS

September 30, 2006

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>ASSETS</b>                                   |                                    |
| Current assets                                  |                                    |
| Cash and cash equivalents                       | \$ 8,004,470                       |
| Investments                                     | 563,831                            |
| Accounts receivable                             | 375,925                            |
| Due from member counties                        | 293,828                            |
| Due from providers                              | 804,969                            |
| Prepaid expenses                                | <u>285,633</u>                     |
| Total current assets                            | 10,328,656                         |
| Non-current assets                              |                                    |
| Capital assets, net of accumulated depreciation | <u>1,736,041</u>                   |
| Total assets                                    | <u><u>\$ 12,064,697</u></u>        |
| <b>LIABILITIES AND NET ASSETS</b>               |                                    |
| <b>LIABILITIES</b>                              |                                    |
| Current liabilities                             |                                    |
| Accounts payable                                | \$ 2,855,517                       |
| Accrued liabilities                             | 175,249                            |
| Due to State                                    | 295,327                            |
| Deferred revenue                                | 1,560,388                          |
| Accrued annual leave                            | 540,388                            |
| Notes payable                                   | <u>24,341</u>                      |
| Total current liabilities                       | 5,451,210                          |
| Non-current liabilities                         |                                    |
| Notes payable                                   | <u>549,501</u>                     |
| Total liabilities                               | <u><u>6,000,711</u></u>            |
| <b>NET ASSETS</b>                               |                                    |
| Invested in capital assets, net of related debt | 1,162,199                          |
| Restricted                                      |                                    |
| Risk management                                 | 2,876,837                          |
| Unrestricted                                    | <u>2,024,950</u>                   |
| Total net assets                                | <u><u>6,063,986</u></u>            |
| Total liabilities and net assets                | <u><u>\$ 12,064,697</u></u>        |

The accompanying notes are an integral part of these financial statements.

# North Country Community Mental Health

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2006

| Functions/Program                                   | Expenses             | Program Revenues        |                                       | Net (Expense)<br>Revenue and Changes<br>Net Assets |
|---|----------------------|-------------------------|---------------------------------------|--|
|   |                      | Charges<br>For Services | Operating Grants<br>and Contributions | Governmental<br>Activities                         |
| Governmental Activities - Mental<br>Health Services |                      |                         |                                       |  |
| Developmentally Disabled                            |                      |                         |                                       |  |
| Program Administration                              | \$ 323,049           | \$ -                    | \$ -                                  | \$ (323,049)                                       |
| State Residential                                   | 100,994              | -                       | 93,969                                | (7,025)  |
| Residential   | 9,948,252            | 142,878                 | 10,006,955                            | 201,581  |
| Outpatient  | 969,541              | 10,551                  | 940,380                               | (18,610)   |
| Partial Day   | 3,423,419            | 15,997                  | 3,311,777                             | (95,645)   |
| Case Management                                     | 1,392,146            | 3,364                   | 1,372,640                             | (16,142)   |
| Mentally Ill - Adult                                |                      |                         |                                       |  |
| Program Administration                              | 279,686              | -                       | -                                     | (279,686)  |
| State Inpatient                                     | 834,486              | -                       | 738,085                               | (96,401)   |
| Community Inpatient                                 | 515,651              | 57,064                  | 432,272                               | (26,315)   |
| Residential   | 1,569,856            | 86,119                  | 1,542,403                             | 58,666   |
| Outpatient  | 2,308,677            | 189,419                 | 2,080,258                             | (39,000)   |
| Partial Day   | 900,616              | 47,812                  | 814,560                               | (38,244)   |
| Case Management                                     | 791,308              | 28,276                  | 725,175                               | (37,857)   |
| Consumer Operated                                   | 203,717              | -                       | 110,999                               | (92,718)   |
| Community Treatment                                 | 953,080              | 117,119                 | 833,880                               | (2,081)  |
| Mentally Ill - Child                                |                      |                         |                                       |  |
| Program Administration                              | 34,640               | -                       | 317                                   | (34,323)   |
| State Inpatient                                     | 43,840               | -                       | 41,119                                | (2,721)  |
| Residential   | 213,604              | 1,838                   | 220,749                               | 8,983  |
| Outpatient  | 1,563,622            | 164,126                 | 1,399,190                             | (306)  |
| Case Management                                     | 121,164              | -                       | 111,192                               | (9,972)  |
| Other Services                                      | 288,333              | 72,402                  | 189,282                               | (26,649)   |
| Board Administration                                | 2,159,623            | 38,745                  | 1,942,500                             | (178,378)  |
| Managed Care Operations                             |                      |                         |                                       |  |
| Ausable Valley CMH                                  | 8,416,597            | -                       | 8,416,597                             | -  |
| Northeast Michigan CMH                              | 16,153,843           | -                       | 16,153,843                            | -  |
| NMSAS   | 724,173              | -                       | 724,173                               | -  |
| Other Contractual Providers                         | 1,394,693            | -                       | 1,394,693                             | -  |
| QAAP Assessment                                     | 3,213,315            | -                       | 3,213,315                             | -  |
| Evidence Based Practice Grant                       | 40,005               | -                       | 39,991                                | (14)   |
| General and Administrative                          | 1,794,247            | 500,814                 | 1,291,238                             | (2,195)  |
| Housing Services                                    | 73,296               | -                       | -                                     | (73,296)   |
| Depreciation - unallocated                          | 159,477              | -                       | -                                     | (159,477)  |
| Total governmental<br>activities                    | <u>\$ 60,908,950</u> | <u>\$ 1,476,524</u>     | <u>\$ 58,141,552</u>                  | <u>(1,290,874)</u>                                 |
| General purpose revenues                            |                      |                         |                                       |  |
| Appropriations from member counties                 |                      |                         |                                       | 657,264  |
| Investment and other                                |                      |                         |                                       | 430,174  |
| Other local miscellaneous                           |                      |                         |                                       | 237,870  |
| Total general purpose revenues                      |                      |                         |                                       | <u>1,325,308</u>                                   |
| Change in net assets                                |                      |                         |                                       | 34,434   |
| Net assets, beginning of year                       |                      |                         |                                       | <u>6,029,552</u>                                   |
| Net assets, end of year                             |                      |                         |                                       | <u>\$ 6,063,986</u>                                |

The accompanying notes are an integral part of these financial statements.

# North Country Community Mental Health

## BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2006

|                                      | Provider<br>Fund    | Affiliation<br>Fund | Total               |
|--------------------------------------|---------------------|---------------------|---------------------|
| <b>ASSETS</b>                        |                     |                     |                     |
| Cash and cash equivalents            | \$ 3,696,615        | \$ 810,498          | \$ 4,507,113        |
| Investments                          | 563,831             | -                   | 563,831             |
| Accounts receivable                  | 359,917             | 16,008              | 375,925             |
| Due from State                       | -                   | (2,851)             | (2,851)             |
| Due from member counties             | 293,828             | -                   | 293,828             |
| Due from providers                   | 43,783              | 761,186             | 804,969             |
| Due from other funds                 | 27,400              | 563,067             | 590,467             |
| Prepaid expenditures                 | 268,000             | 17,633              | 285,633             |
| Total assets                         | <u>\$ 5,253,374</u> | <u>\$ 2,165,541</u> | <u>\$ 7,418,915</u> |
| <b>LIABILITIES AND FUND BALANCES</b> |                     |                     |                     |
| <b>LIABILITIES</b>                   |                     |                     |                     |
| Accounts payable                     | \$ 1,791,946        | \$ 1,063,572        | \$ 2,855,518        |
| Accrued liabilities                  | 159,304             | 15,945              | 175,249             |
| Due to State                         | 292,476             | -                   | 292,476             |
| Due to other funds                   | 563,067             | -                   | 563,067             |
| Deferred revenue                     | 397,292             | 1,163,096           | 1,560,388           |
| Total liabilities                    | 3,204,085           | 2,242,613           | 5,446,698           |
| <b>FUND BALANCES</b>                 |                     |                     |                     |
| Unreserved                           | 2,049,289           | (77,072)            | 1,972,217           |
| Total liabilities and fund balances  | <u>\$ 5,253,374</u> | <u>\$ 2,165,541</u> |                     |

### Reconciliation of Governmental Fund Balances to Government-Wide Net Assets

Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not  
financial resources and, therefore, are not reported as  
assets in governmental funds. The cost of the assets  
is \$1,420,621 and the accumulated depreciation is  
\$877,387.

543,234

Internal service funds are used by management to charge  
the costs of certain activities, such as building rentals  
and risk management, to individual funds. The assets  
and liabilities of the internal service funds are  
included in governmental activities in the statement of  
net assets.

3,548,535

Total net assets - governmental activities

\$ 6,063,986

# North Country Community Mental Health

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2006

|   | Provider<br>Fund    | Affiliation<br>Fund | Total               |
|---|---------------------|---------------------|---------------------|
| <b>Revenues</b>                           |                     |                     |                     |
| Department funding                        | \$ 26,724,344       | \$ 52,556,012       | \$ 79,280,356       |
| Local match                               | 1,180,008           | 831,194             | 2,011,202           |
| Reimbursements                            | 712,791             | -                   | 712,791             |
| Earned revenue                            | 262,920             | -                   | 262,920             |
| Grants                                    | 194,603             | -                   | 194,603             |
| Other revenue                             | -                   | 245,387             | 245,387             |
|   | <u>29,074,666</u>   | <u>53,632,593</u>   | <u>82,707,259</u>   |
| <b>Total revenues</b>                     |                     |                     |                     |
|   | <u>29,074,666</u>   | <u>53,632,593</u>   | <u>82,707,259</u>   |
| <b>Expenditures</b>                       |                     |                     |                     |
| Developmentally Disabled                  |                     |                     |                     |
| Program Administration                    | 323,049             | -                   | 323,049             |
| State Residential                         | 100,994             | -                   | 100,994             |
| Residential                               | 9,959,578           | -                   | 9,959,578           |
| Outpatient                                | 969,541             | -                   | 969,541             |
| Partial Day                               | 3,423,419           | -                   | 3,423,419           |
| Case Management                           | 1,392,146           | -                   | 1,392,146           |
| Mentally Ill - Adult                      |                     |                     |                     |
| Program Administration                    | 279,686             | -                   | 279,686             |
| State Inpatient                           | 834,486             | -                   | 834,486             |
| Community Inpatient                       | 515,651             | -                   | 515,651             |
| Residential                               | 1,599,202           | -                   | 1,599,202           |
| Outpatient                                | 2,308,677           | -                   | 2,308,677           |
| Partial Day                               | 911,819             | -                   | 911,819             |
| Case Management                           | 798,437             | -                   | 798,437             |
| Consumer Operated                         | 207,826             | -                   | 207,826             |
| Assertive Community Treatment             | 963,264             | -                   | 963,264             |
| Mentally Ill - Child                      |                     |                     |                     |
| Program Administration                    | 34,640              | -                   | 34,640              |
| State Inpatient                           | 43,840              | -                   | 43,840              |
| Residential                               | 213,604             | -                   | 213,604             |
| Outpatient                                | 1,563,622           | -                   | 1,563,622           |
| Case Management                           | 121,164             | -                   | 121,164             |
| Other Services                            | 288,333             | -                   | 288,333             |
| Board Administration                      | 2,493,999           | -                   | 2,493,999           |
| Managed Care Operations                   | -                   | 53,574,288          | 53,574,288          |
|   | <u>29,346,977</u>   | <u>53,574,288</u>   | <u>82,921,265</u>   |
| <b>Total expenditures</b>                 |                     |                     |                     |
|   | <u>29,346,977</u>   | <u>53,574,288</u>   | <u>82,921,265</u>   |
| <b>REVENUES (UNDER) OVER EXPENDITURES</b> | (272,311)           | 58,305              | (214,006)           |
| Fund balance, beginning of year           | <u>2,321,600</u>    | <u>(135,377)</u>    | <u>2,186,223</u>    |
| Fund balance, end of year                 | <u>\$ 2,049,289</u> | <u>\$ (77,072)</u>  | <u>\$ 1,972,217</u> |

The accompanying notes are an integral part of these financial statements.

## North Country Community Mental Health

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2006

**Total Net Change in Fund Balances - Governmental Funds** \$ (214,006)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceeds depreciation during the year.

|                                    |                  |         |
|------------------------------------|------------------|---------|
| Capital outlays                    | \$ 347,976       |         |
| Undepreciable balance of disposals | (13,600)         |         |
| Depreciation expense               | <u>(159,477)</u> | 174,899 |

Internal service funds are used by management to charge the costs of certain activities, such as building rentals and risk management, to individual funds. The net income of the internal service funds is reported with governmental activities. 73,541

**Changes in Net Assets of Governmental Activities** \$ 34,434



# North Country Community Mental Health

## BALANCE SHEET - PROPRIETARY FUNDS

September 30, 2006

|                                    | Internal Service Funds (Non-Major) |                             |                                 |                     |
|------------------------------------|------------------------------------|-----------------------------|---------------------------------|---------------------|
|                                    | Risk<br>Management<br>Fund         | Employee<br>Benefit<br>Fund | Building<br>Improvement<br>Fund | Total               |
| <b>ASSETS</b>                      |                                    |                             |                                 |                     |
| Cash and cash equivalents          | \$ 2,905,651                       | \$ 557,544                  | \$ 34,162                       | \$ 3,497,357        |
| Due from other funds               | -                                  | -                           | 18,570                          | 18,570              |
| Total current assets               | 2,905,651                          | 557,544                     | 52,732                          | 3,515,927           |
| Buildings, net of depreciation     | -                                  | -                           | 1,192,807                       | 1,192,807           |
| Total assets                       | <u>\$ 2,905,651</u>                | <u>\$ 557,544</u>           | <u>\$ 1,245,539</u>             | <u>\$ 4,708,734</u> |
| <b>LIABILITIES AND FUND EQUITY</b> |                                    |                             |                                 |                     |
| <b>LIABILITIES</b>                 |                                    |                             |                                 |                     |
| Due to other funds                 | \$ 28,813                          | \$ 17,156                   | \$ -                            | \$ 45,969           |
| Accrued annual leave               | -                                  | 540,388                     | -                               | 540,388             |
| Notes payable                      | -                                  | -                           | 24,341                          | 24,341              |
| Total current liabilities          | 28,813                             | 557,544                     | 24,341                          | 610,698             |
| Notes payable                      | -                                  | -                           | 549,501                         | 549,501             |
| Total liabilities                  | <u>28,813</u>                      | <u>557,544</u>              | <u>573,842</u>                  | <u>1,160,199</u>    |
| <b>FUND EQUITY</b>                 |                                    |                             |                                 |                     |
| Retained earnings                  |                                    |                             |                                 |                     |
| Unrestricted                       | -                                  | -                           | 671,697                         | 671,697             |
| Restricted for                     |                                    |                             |                                 |                     |
| Managed care                       | 2,493,401                          | -                           | -                               | 2,493,401           |
| General funds                      | 383,437                            | -                           | -                               | 383,437             |
| Total fund equity                  | <u>2,876,838</u>                   | <u>-</u>                    | <u>671,697</u>                  | <u>3,548,535</u>    |
| Total liabilities and fund equity  | <u>\$ 2,905,651</u>                | <u>\$ 557,544</u>           | <u>\$ 1,245,539</u>             | <u>\$ 4,708,734</u> |

The accompanying notes are an integral part of these financial statements.

# North Country Community Mental Health

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - PROPRIETARY FUNDS

For the Year Ended September 30, 2006

|   | <u>Internal Service Funds (Non-Major)</u> |                                      |  |                            |
|---|---|--------------------------------------|--|----------------------------|
|   | <u>Risk<br/>Management<br/>Fund</u>       | <u>Employee<br/>Benefit<br/>Fund</u> | <u>Building<br/>Improvement<br/>Fund</u> | <u>Total</u>               |
| Revenues  |   |                                      |  |                            |
| Charges for service   | \$ -                                      | \$ 5,543                             | \$ 73,296                                | \$ 78,839                  |
| Interest income   | <u>101,428</u>                            | <u>-</u>                             | <u>926</u>                               | <u>102,354</u>             |
| Total revenues  | <u>101,428</u>                            | <u>5,543</u>                         | <u>74,222</u>                            | <u>181,193</u>             |
| Expenditures  |   |                                      |  |                            |
| Employee benefits   | -   | 5,543                                | -  | 5,543                      |
| Risk expense  | 28,813                                    | -                                    | -  | 28,813                     |
| Depreciation  | -   | -                                    | 49,806                                   | 49,806                     |
| Interest expense  | <u>-</u>                                  | <u>-</u>                             | <u>23,490</u>                            | <u>23,490</u>              |
| Total expenditures  | <u>28,813</u>                             | <u>5,543</u>                         | <u>73,296</u>                            | <u>107,652</u>             |
| <b>NET OPERATING INCOME</b>   | 72,615                                    | -                                    | 926                                      | 73,541                     |
| Other financing sources   |   |                                      |  |                            |
| In-kind contribution of residential property<br>from governmental funds | <u>-</u>                                  | <u>-</u>                             | <u>160,391</u>                           | <u>160,391</u>             |
| <b>NET INCOME</b>   | 72,615                                    | -                                    | 161,317                                  | 233,932                    |
| Fund equity, beginning of year  | <u>2,804,223</u>                          | <u>-</u>                             | <u>510,380</u>                           | <u>3,314,603</u>           |
| Fund equity, end of year  | <u><u>\$ 2,876,838</u></u>                | <u><u>\$ -</u></u>                   | <u><u>\$ 671,697</u></u>                 | <u><u>\$ 3,548,535</u></u> |

The accompanying notes are an integral part of these financial statements.

# North Country Community Mental Health

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended September 30, 2006

|   | <u>Internal<br/>Service Funds</u> |
|---|-----------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                   |
| Operating income  | \$ 73,541                         |
| Adjustments to reconcile net operating income to<br>cash provided by operating activities |                                   |
| Depreciation  | 49,806                            |
| Increase in due from other funds  | 1,003,979                         |
| Increase in accrued annual leave  | 5,543                             |
| Decrease in due to other funds  | <u>(58,479)</u>                   |
| Net cash provided from operating activities   | 1,074,390                         |
| <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>                                       |                                   |
| Net borrowings (repayments) under loan agreements   | <u>(25,237)</u>                   |
| <b>NET INCREASE IN CASH</b>   | 1,049,153                         |
| Cash, beginning of year   | <u>2,448,205</u>                  |
| Cash, end of year   | <u><u>\$ 3,497,358</u></u>        |
| <b>Supplemental schedule of non-cash investing<br/>and financing activities</b>           |                                   |
| In-kind contribution of residential property  | <u><u>\$ 160,391</u></u>          |

# **North Country Community Mental Health**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Nature of Operations***

North Country Community Mental Health (the "Authority") was created on April 1, 2003 as an independent mental health authority by the Counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska and Otsego, under Public Act 290, PA 1995. The Authority is the survivor, resulting from the merger of Northern Michigan Community Mental Health Services Board and Antrim Kalkaska Community Mental Health Services Board. The Authority is governed by an 14 member board. The operations of the Authority are characterized by two distinct functions as follows:

#### ***Conduit of State Medicaid Funds***

The Authority is the Preferred Health Provider ("PHP"), representing three community mental health agencies servicing 13 counties in Northern Michigan, the "Northern Affiliation." As the PHP, the Authority negotiates with the Michigan Department of Community Health ("MDCH") for the Northern Affiliation's Medicaid contract. The PHP then negotiates contracts with its affiliated providers for distribution of those funds.

#### ***Provider of Mental Health Services***

As a provider of mental health services, the Authority's purpose and power is to carry out the provisions of the Michigan Mental Health Code in the six-county area it services. Funding for State Medicaid revenue flows from the contract described above. For non-Medicaid funds, the Authority and each member of the Northern Affiliation individually contract with MDCH and other funding sources.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to local governments in the United States.

The accounting and reporting framework and the more significant accounting principles and practices of the Authority are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Authority's activities.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Reporting Entity***

The Authority's financial statements include the accounts of all Authority operations. In evaluating the Authority as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Authority may or may not be financially accountable and, as such, be includable within the Authority's financial statements. In accordance with GASB Statement No. 14, the Authority is financially accountable if it appoints a voting majority of the potential component unit's governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Authority. Additionally, the Authority is required to consider other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. Based on this criteria, management has not identified any potential component units requiring consideration for inclusion in the Authority's financial statements.

### ***Government-Wide and Fund Financial Statements***

#### ***Government-Wide Financial Statements***

The statement of net assets and statement of activities display information about the Authority as a whole. Individual funds are not displayed, but the statements distinguish governmental and business-like (if any) activities generally supported by the Authority's general revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Authority's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

#### ***Fund Financial Statements***

The balance sheet and statement of revenues, expenditures and changes in fund balances for the Authority's governmental funds and the balance sheet, statement of revenues, expenses and changes in retained earnings and the statement of cash flows for the Authority's proprietary funds are presented after the government-wide statements. These fund financial statements display information about major funds for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures. The Authority's only proprietary funds are internal service funds used in governmental activities. Internal service funds are not major funds but are shown individually to satisfy reporting requirements of the Michigan Department of Treasury.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The financial statements of the Authority are prepared in accordance with *Generally Accepted Accounting Principles* ("GAAP"). The Authority applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances are considered a measure of "available spendable resources." Governmental fund operating statements present increases and decreases in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule are: (1) accumulated unpaid vacation, sick pay and other employee amounts which are not payable from available resources and; (2) principal and interest on general long-term debt which is recognized when due.

### ***Program Revenues***

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the Authority's general revenues.

The Authority's most significant program revenues are Medicaid, other State grants and charges for services.

### ***Revenue Recognition***

A significant portion of funding is received through the State of Michigan under managed care contracts. The contracts are prepaid and the Authority is responsible for management of all State and Federal funds they receive via their contracts. The Authority has negotiated two contracts with the State covering the period from October 1, 2005 through September 30, 2006. One contract covers Medicaid funds and the other covers State General Funds. Both of the contracts are partial-risk contracts with the Authority and the State of Michigan Department of Community Health sharing costs for services over an established threshold. The Authority's risk is limited to all of the first 5% of costs in excess of the threshold and half of the second 5% of costs in excess of the threshold.

## NOTES TO FINANCIAL STATEMENTS - Continued

Additionally, the Authority is entitled to reinvest cost savings of up to 7.5% of the Medicaid threshold and 5% of the General Fund threshold to be used as follows:

Medicaid contract savings are to be used for qualifying Medicaid reinvestment expenditures.

General Fund savings are carried forward to the subsequent fiscal year.

Cost settlement occurs as of September 30, as necessary, to determine expenditures for the risk sharing methodology. Savings, if any, are recorded as deferred revenue until utilized as described above.

### *Medicaid Contract*

The Authority has contracted with the State of Michigan for Medicaid funds for all of its affiliated providers. Payment under the contract is on a capitated basis. Payment to the Authority is on a per-eligible Medicaid recipient, per month basis. Adjustments for the fluctuations in the Medicaid population are made monthly. The Authority recognizes all payments received under this contract as revenue in its Affiliation Fund. The Provider Fund recognizes reimbursement revenue as it provides services funded by the Affiliation Fund.

### *General Fund Contract*

The Authority's General Fund contract with the State of Michigan is based on historical funding levels. Revenue is recognized in the Provider Fund upon incurring qualifying expenditures.

## ***Fund Types and Major Funds***

### *Activities in Major Funds*

The Provider Fund is the main operating fund of the Authority. It is used to account for the proceeds of revenue sources legally restricted for mental health activities.

The Affiliation Fund negotiates with the Michigan Department of Community Health for the Northern Affiliation's Medicaid contract. It is used to account for the receipt and distributions of State contracted Medicaid revenues on behalf of the Northern Affiliation's members.

### *Activities in Internal Service Funds*

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the Authority or to other governments on a cost-reimbursement basis.

The Risk Management Fund is used to finance exposure to risk under managed care contracts.

The Employee Benefit Fund is used to finance employees' annual leave benefits accrued but unpaid.

The Building Improvement Fund is used to account for the acquisition of properties that are leased to the Provider Fund and made available to North Country Community Mental Health clients.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Cash Equivalents***

For purposes of the balance sheet classification, the Authority considers all highly-liquid debt instruments with maturity of three months or less to be a cash equivalent.

### ***Capital Assets***

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. The Authority generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

|                            | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 8 - 25       |
| Furniture and equipment    | 3 - 10       |
| Vehicles                   | 4            |

### ***Budgets and Budgetary Accounting***

A budget is adopted each year for the governmental funds based on an appropriated amount. The budgets are prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. Budgetary control over programs funded under grants and contracts are maintained on the basis of the provisions contained in the grants and contracts.

### ***Fund Equity***

The proprietary funds financial statements report restricted fund equity for amounts not appropriable for expenditures or legally segregated for a specific future use. Designations of fund balances represent management's plans for future use of financial resources.

### ***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Initial costs settlements under managed care contracts require substantial use of judgment and are subject to review by the Michigan Department of Community Health. Accordingly, the reported amounts of revenue, deferred revenue and due from/to the State could change.



## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE B - BUDGETARY POLICY AND PRACTICE

The Authority follows the provisions of P.A. 621 of 1978 (the Uniform Budgeting and Accounting Act) (the "Act") in the adoption and execution of its budget. The Act requires amounts be appropriated in the Provider and Affiliation Funds before expenditures may be incurred. Appropriations must be amended to allow expenditures in excess of the original appropriation. However, appropriations in excess of revenues and available fund balance are in violation of the Act. All budget appropriations lapse at the end of each fiscal year.

During the year ended September 30, 2006, the Authority incurred expenditures which were in excess of the amounts appropriated as follows:

|                          | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------|---------------|---------------|-----------------|
| Provider Fund            |               |               |                 |
| Developmentally Disabled |               |               |                 |
| Program Administration   | \$ 311,292    | \$ 323,049    | \$ 11,757       |
| Mentally Ill - Adult     |               |               |                 |
| Program Administration   | 198,867       | 279,686       | 80,819          |
| Partial Day              | 889,974       | 911,819       | 21,845          |
| Consumer Operated        | 204,375       | 207,826       | 3,451           |
| Board Administration     | 2,386,341     | 2,493,999     | 107,658         |

### NOTE C - CASH AND INVESTMENTS

At September 30, 2006, the Authority's cash and cash equivalents and investments include the following:

|               | <u>Financial Statement Classification</u> |                    |                     |
|---------------|---|--------------------|---------------------|
|               | <u>Cash and<br/>Equivalents</u>           | <u>Investments</u> | <u>Total</u>        |
| Cash on hand  | \$ 3,655                                  | \$ -               | \$ 3,655            |
| Bank deposits | 4,735,892                                 | 563,831            | 5,299,723           |
| Investments   | <u>3,264,923</u>                          | <u>-</u>           | <u>3,264,923</u>    |
|               | <u>\$ 8,004,470</u>                       | <u>\$ 563,831</u>  | <u>\$ 8,568,301</u> |

#### *Custodial Credit Risk - Deposits*

In the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2006, \$5,091,520 of the Authority's bank deposits were uninsured.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Investments*

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

The investments held by the Authority and their maturities are as follows:

| <u>Investment Type</u>    | <u>Fair Value</u>   | <u>Investment Maturities (in years)</u> |             |                    |
|---------------------------|---------------------|---|-------------|--------------------|
|                           |                     | <u>Current</u>                          | <u>1-5</u>  | <u>More than 5</u> |
| Money Market mutual funds | <u>\$ 3,264,923</u> | <u>\$ 3,264,923</u>                     | <u>\$ -</u> | <u>\$ -</u>        |

### *Interest Rate Risk*

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### *Credit Risk*

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The Authority's investment in the money market funds was rated Aaa by Moody's Investors Services.

# NOTES TO FINANCIAL STATEMENTS - Continued

## NOTE D - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

|                                    | September 30,<br>2005 | Additions         | Retirements         | September 30,<br>2006 |
|------------------------------------|-----------------------|-------------------|---------------------|-----------------------|
| Vehicles                           | \$ 724,183            | \$ 182,981        | \$ (212,447)        | \$ 694,717            |
| Computer equipment                 | 319,826               | 59,963            | (7,525)             | 372,264               |
| Furniture and fixtures             | 364,476               | 7,802             | (18,637)            | 353,641               |
| Residential homes and improvements | <u>1,059,271</u>      | <u>160,390</u>    | <u>-</u>            | <u>1,219,661</u>      |
| Total depreciable assets           | 2,467,756             | 411,136           | (238,609)           | 2,640,283             |
| Less accumulated depreciation      | (1,067,467)           | (209,283)         | 225,008             | (1,051,742)           |
| Construction-in-process            | 63,160                | 89,103            | (152,263)           | -                     |
| Land                               | <u>147,500</u>        | <u>-</u>          | <u>-</u>            | <u>147,500</u>        |
| Total capital assets, net          | <u>\$ 1,610,949</u>   | <u>\$ 290,956</u> | <u>\$ (165,864)</u> | <u>\$ 1,736,041</u>   |

Depreciation expense was charged to the function in the statement of activities, as follows:

|                  |                   |
|------------------|-------------------|
| Housing Services | \$ 49,806         |
| Unallocated      | <u>159,477</u>    |
|                  | <u>\$ 209,283</u> |

## NOTE E - NON-CURRENT LIABILITIES

Changes in non-current liabilities during the year ended September 30, 2006 were as follows:

|                       | Beginning<br>Balance | New<br>Debt     | Payments         | Ending<br>Balance   | Current<br>Portion |
|-----------------------|----------------------|-----------------|------------------|---------------------|--------------------|
| Notes payable         | \$ 599,079           | \$ -            | \$ 25,237        | \$ 573,842          | \$ 24,341          |
| Accrued annual leave* | <u>534,845</u>       | <u>5,543</u>    | <u>-</u>         | <u>540,388</u>      | <u>540,388</u>     |
|                       | <u>\$ 1,133,924</u>  | <u>\$ 5,543</u> | <u>\$ 25,237</u> | <u>\$ 1,114,230</u> | <u>\$ 564,729</u>  |

\*Accrued annual leave new debt represents the net effect of additional sick and vacation days earned and used during the year.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Notes Payable***

|  |                          |
|--|--------------------------|
| Promissory note payable to bank with monthly payments of \$1,725, including interest rate at 3.75%; balance of principal due at maturity; maturing July 7, 2014. | \$ 254,194               |
| Promissory note payable to bank with monthly payments of \$2,156, including interest rate at 3.77%; balance of principal due at maturity; maturing July 3, 2013. | <u>319,648</u>           |
| Total notes payable  | 573,842                  |
| Less current portion   | <u>(24,341)</u>          |
|  | <u><u>\$ 549,501</u></u> |

Interest paid was \$23,490 for the year ended September 30, 2006.

Future minimum maturities are as follows:

| <u>Years Ending<br/>September 30,</u> | <u>Principal</u>         | <u>Interest</u>          | <u>Total</u>             |
|---------------------------------------|--------------------------|--------------------------|--------------------------|
| 2007                                  | \$ 24,341                | \$ 21,319                | \$ 45,660                |
| 2008                                  | 25,275                   | 20,385                   | 45,660                   |
| 2009                                  | 26,245                   | 19,415                   | 45,660                   |
| 2010                                  | 27,252                   | 18,408                   | 45,660                   |
| 2011                                  | 28,297                   | 17,363                   | 45,660                   |
| 2012-2014                             | <u>442,432</u>           | <u>34,784</u>            | <u>477,216</u>           |
|                                       | <u><u>\$ 573,842</u></u> | <u><u>\$ 131,674</u></u> | <u><u>\$ 705,516</u></u> |

### ***Accumulated Accrued Benefits***

Employees of the Authority accumulate days of sick and vacation leave. The amounts are calculated based on each employee's total accumulated hours at their current pay rate. The accrued vacation liability is valued at 100% of each employee's accrued hours at their pay rate on that date. A maximum of 240 hours vacation may be accrued by any employee. The accrued sick time liability is valued at one-quarter of each employee's accrued hours (with a maximum of 320 hours) at their pay rate on that date. These liabilities at September 30, 2006 are estimated at \$540,388.

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE F - OPERATING LEASES

The Authority leases various facilities and equipment under operating leases with terms ranging from month-to-month to multiple year agreements with options for extensions. Total rent expense for the year ended September 30, 2006 was \$1,007,276. Future minimum lease payments are as follows:

| <u>Years ending</u><br><u>September 30,</u> |                     |
|---|---------------------|
| 2007  | \$ 680,258          |
| 2008  | 431,899             |
| 2009  | 329,363             |
| 2010  | 149,769             |
| 2011  | <u>55,603</u>       |
|   | <u>\$ 1,646,892</u> |

### NOTE G - RETIREMENT PLAN

The Authority provides 401(a) Money Purchase Plans for both union and non-union employees who have met the respective employment requirements. Total pension contributions for the year ended September 30, 2006 was \$474,238.

#### *Non-Union Employees*

Under the plan, the Authority and its non-union employees contribute 12.2% and 6.2% of qualified compensation, respectively. Authority contributions are fully vested immediately.

#### *Union Employees*

Under the plan, the Authority contributes an amount up to 8.17% of qualified compensation. Authority contributions are fully vested after four years of service. Investment earnings forfeited by participants who terminate employment prior to becoming fully vested are used to reduce the Authority's annual contribution requirement.

Additionally, the Authority provides a Deferred Compensation Plan and Trust under Section 457 of the Internal Revenue Code of 1986, as amended, which covers all employees meeting certain employment requirements. Participants may contribute any amount as permitted through the plan.

### NOTE H - PROFESSIONAL AND CONTRACTUAL SERVICES

The Authority contracts with certain organizations to provide mental health programs and various other professional and contractual services. Organizations receiving in excess of 10% of Provider Fund subcontractor expenditures in accordance with such contracts are listed below:

|                                 |              |
|---------------------------------|--------------|
| Northern Management Service     | \$ 1,832,278 |
| Summertree Residential Services | 3,054,571    |

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE I - CONTINGENT LIABILITIES

The Authority received a significant amount of their revenue from various Federal and State assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. The compliance audits of these programs for or including the year ended September 30, 2006 and prior may not have all been conducted. Accordingly, the Authority's compliance with the program requirements may be established at some future date.

### NOTE J - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member in the Michigan Municipal Risk Management Authority ("MMRMA") for risk of loss relating to its property and general liability (except auto liability and vehicle physical damage).

The MMRMA is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the MMRMA is to administer a risk management fund, which provides members with loss protection for general and property liability.

The Authority has joined with numerous other governmental agencies in Michigan as a participant in MMRMA's "State Pool". Members of the State Pool do not have individual self-insured retention amounts other than a \$500 deductible per occurrence of liability coverage and a \$250 deductible per occurrence of property coverage.

State Pool members' limits of coverage (per occurrence) are \$5 million for liability and about \$350,000 for property. If a covered loss exceeds these limits or, if for any reason, MMRMA's resources are depleted, the payment of all unpaid losses is the sole obligation of the Authority.

The Authority carries commercial insurance for all other risks of loss including auto liability, vehicle physical damage, workers' compensation, liability and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

### NOTE K - MANAGED CARE RISK FINANCING

The Authority established an Internal Service Fund for the purpose of financing risk of loss under the managed care contract. The Authority is exposed to two layers of risk: All of the first 5% of costs in excess of allocations and half of the second 5% of costs in excess of allocations, for a total potential annual loss of 7.5% of allocations. All amounts remaining in the Risk Management Fund, including related interest earnings, are restricted/reserved for the financing of losses under the managed care contract.

The Authority's policy has been to maintain, to the extent prudent and possible, a risk fund balance equal to its maximum exposure in a single year, i.e. 7 1/2% of the Authority's annual allocation. The risk exposure currently exceeds \$4 million for the Affiliation Fund and \$410,000 for the Provider Fund.

## NOTES TO FINANCIAL STATEMENTS - Continued

The ultimate amount of allowable managed care risk is subject to the outcome of future events, including actual future losses under the managed care contract and approval of the Michigan Department of Community Health ("MDCH"). Should losses not develop as estimated or the MDCH disallow some of the amount set aside, then such unused/disallowed amount, plus interest, would be returned to MDCH.

**REQUIRED SUPPLEMENTAL INFORMATION**



# North Country Community Mental Health

## BUDGETARY COMPARISON SCHEDULE FOR THE PROVIDER FUND

For the Year Ended September 30, 2006

|   | Budgeted Amounts  |                   | Actual<br>(GAAP Basis) | Variances - Positive (Negative) |                          |
|---|-------------------|-------------------|------------------------|---------------------------------|--------------------------|
|   | Original          | Final             |                        | Original to<br>Final            | Final to Actual<br>Total |
| <b>Revenues</b>                           |                   |                   |                        |                                 |                          |
| Department funding                        | \$ 26,787,573     | \$ 27,571,325     | \$ 26,724,344          | \$ 783,752                      | \$ (846,981)             |
| Local match                               | 1,029,445         | 1,047,189         | 1,180,008              | 17,744                          | 132,819                  |
| Reimbursements                            | 645,426           | 748,177           | 712,791                | 102,751                         | (35,386)                 |
| Earned revenue                            | 192,970           | 171,900           | 262,920                | (21,070)                        | 91,020                   |
| Grants                                    | 246,366           | 250,227           | 194,603                | 3,861                           | (55,624)                 |
| Other                                     | -                 | 555,940           | -                      | 555,940                         | (555,940)                |
| <b>Total revenues</b>                     | <b>28,901,780</b> | <b>30,344,758</b> | <b>29,074,666</b>      | <b>1,442,978</b>                | <b>(1,270,092)</b>       |
| <b>Expenditures</b>                       |                   |                   |                        |                                 |                          |
| Developmentally Disabled                  |                   |                   |                        |                                 |                          |
| Program Administration                    | 263,780           | 311,292           | 323,049                | (47,512)                        | (11,757)                 |
| State Inpatient                           | 39,231            | 136,530           | 100,994                | (97,299)                        | 35,536                   |
| Residential                               | 9,610,019         | 10,116,313        | 9,959,578              | (506,294)                       | 156,735                  |
| Outpatient                                | 1,009,769         | 1,033,963         | 969,541                | (24,194)                        | 64,422                   |
| Partial Day                               | 3,253,181         | 3,477,831         | 3,423,419              | (224,650)                       | 54,412                   |
| Case Management                           | 1,449,421         | 1,451,663         | 1,392,146              | (2,242)                         | 59,517                   |
| Mentally Ill - Adult                      |                   |                   |                        |                                 |                          |
| Program Administration                    | 192,391           | 198,867           | 279,686                | (6,476)                         | (80,819)                 |
| State Inpatient                           | 999,575           | 924,120           | 834,486                | 75,455                          | 89,634                   |
| Community Inpatient                       | 671,069           | 609,132           | 515,651                | 61,937                          | 93,481                   |
| Residential                               | 1,735,085         | 1,625,269         | 1,599,202              | 109,816                         | 26,067                   |
| Outpatient                                | 2,394,265         | 2,349,955         | 2,308,677              | 44,310                          | 41,278                   |
| Partial Day                               | 886,180           | 889,974           | 911,819                | (3,794)                         | (21,845)                 |
| Case Management                           | 854,378           | 911,735           | 798,437                | (57,357)                        | 113,298                  |
| Consumer Operated                         | 105,000           | 204,375           | 207,826                | (99,375)                        | (3,451)                  |
| Assertive Community Treatment             | 944,060           | 994,701           | 963,264                | (50,641)                        | 31,437                   |
| Mentally Ill - Child                      |                   |                   |                        |                                 |                          |
| Program Administration                    | 63,342            | 82,795            | 34,640                 | (19,453)                        | 48,155                   |
| State Inpatient                           | -                 | 43,840            | 43,840                 | (43,840)                        | -                        |
| Community Inpatient                       | 18,000            | 10,090            | -                      | 7,910                           | 10,090                   |
| Residential                               | 245,890           | 217,506           | 213,604                | 28,384                          | 3,902                    |
| Outpatient                                | 1,568,063         | 1,697,246         | 1,563,622              | (129,183)                       | 133,624                  |
| Case Management                           | 83,648            | 188,568           | 121,164                | (104,920)                       | 67,404                   |
| Other Services                            | 486,430           | 482,652           | 288,333                | 3,778                           | 194,319                  |
| Board Administration                      | 2,029,003         | 2,386,341         | 2,493,999              | (357,338)                       | (107,658)                |
| <b>Total expenditures</b>                 | <b>28,901,780</b> | <b>30,344,758</b> | <b>29,346,977</b>      | <b>(1,442,978)</b>              | <b>997,781</b>           |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> |                   |                   |                        |                                 |                          |
| Fund balance, beginning of year           | -                 | -                 | (272,311)              | -                               | (272,311)                |
| Fund balance, end of year                 | 2,321,600         | 2,321,600         | 2,321,600              | -                               | -                        |
|   | \$ 2,321,600      | \$ 2,321,600      | \$ 2,049,289           | \$ -                            | \$ (272,311)             |

# North Country Community Mental Health

## BUDGETARY COMPARISON SCHEDULE FOR THE AFFILIATION FUND

For the Year Ended September 30, 2006

|   | Budgeted Amounts |               | Actual<br>(GAAP Basis) | Variances - Positive (Negative) |                          |
|---|------------------|---------------|------------------------|---------------------------------|--------------------------|
|   | Original         | Final         |                        | Original to<br>Final            | Final to Actual<br>Total |
| <b>Revenues</b>                           |                  |               |                        |                                 |                          |
| Department funding                        | \$ 53,858,989    | \$ 53,878,594 | \$ 52,556,012          | \$ 19,605                       | \$ (1,322,582)           |
| Local match                               | 831,194          | 831,194       | 831,194                | -                               | -                        |
| Other revenue                             | 249,833          | 381,425       | 245,387                | 131,592                         | (136,038)                |
| Total revenues                            | 54,940,016       | 55,091,213    | 53,632,593             | 151,197                         | (1,458,620)              |
| <b>Expenditures</b>                       |                  |               |                        |                                 |                          |
| Managed Care Operations                   | 54,940,016       | 54,997,213    | 53,574,288             | (57,197)                        | 1,422,925                |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | -                | 94,000        | 58,305                 | (94,000)                        | (35,695)                 |
| Fund balance, beginning of year           | -                | -             | (135,377)              | -                               | (135,377)                |
| Fund balance, end of year                 | -                | 94,000        | (77,072)               | (94,000)                        | (171,072)                |



Business and Financial Advisors  
*Our clients' success - our business*

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## **AUDIT-RELATED COMMUNICATIONS**

To the Mental Health Board  
North Country Community Mental Health

We have audited the financial statements of North Country Community Mental Health (the "Authority") for the year ended September 30, 2006, and have issued our report thereon dated February 8, 2007. Professional standards require that we provide you with the following information related to our audit.

### ***Our Responsibility under U.S. Generally Accepted Auditing Standards***

As stated in our engagement letter dated January 17, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated February 8, 2007 on the financial statements of the Authority.

### ***Budgeting***

During the course of the prior year's audit, we noticed the Authority's procedure for budgeting capital expenditures was inconsistent with its obligation to report in accordance with Generally Accepted Accounting Principles ("GAAP") in its governmental funds. We suggested you adopt its annual budget in a manner consistent with the reporting requirements of GAAP. We are pleased that our suggestion was implemented during 2006.

During the current year audit, we noticed the need for the Board minutes to include resolutions with detail to define the adopted budget. We suggest adopting Board resolutions that provide enough detail to define the budget adopted. We can provide some examples at your request.

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### ***Significant Accounting Policies***

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### ***Administrative Cost Allocations***

The Authority is in Phase I of the Section 460 *Administrative Cost Allocation* reporting process. This involves preparing a 460 cost allocation plan which will be used to allocate actual costs for fiscal year September 30, 2007, between direct service and administrative costs. This plan will be used to complete a 460 allocation report for fiscal year 2007, which will be reviewed during the annual independent audit to verify the report was prepared using methodologies identified in the plan and that there is evidence that the allocation was made in compliance with Federal regulations (OMB Circular A-87).

We recommend that the plan design and its expected implementation be reviewed early, rather than waiting for the annual audit, so that you can have some additional assurance that unexpected issues will not arise during the audit. If issues are identified, you will have more opportunity to address them with an early review. Further, much of the cost of this review would be offset by a reduction in the cost of the annual audit.

### ***Affiliation Fund Unfunded Capital Outlays***

The Medicaid contract with the State does not allow the Authority to charge the full expenditure for a capital outlay item exceeding \$5,000 in the year of the acquisition. The State requires the Authority to amortize the expense over the useful life of the asset and charge to annual eligible expenses accordingly. The effect of this policy is a delay in reimbursements for capital expenditures exceeding \$5,000 resulting in a deficit fund balance that is self-correcting, but continuous due to receiving capital outlays.

### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the depreciation was based on capital outlay schedules maintained by the Authority. We evaluated key factors and assumptions used to develop those estimates in determination that they are reasonable in relation to the financial statements taken as a whole.

Initial cost settlements under managed care contracts require substantial use of judgment and are subject to review by the Michigan Department of Community Health. Accordingly, reported amounts of revenue, deferred revenue and due from/to the State could change. We evaluated key factors and assumptions used to develop those estimates in determination that they are reasonable in relation to the financial statements as a whole.

### ***Audit Adjustments***

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process.

### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Issues Discussed Prior to Retention of Independent Auditors***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Mental Health Board  
North Country Community Mental Health  
Page 4

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of Mental Health Board and management of North Country Community Mental Health and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth*

February 8, 2007